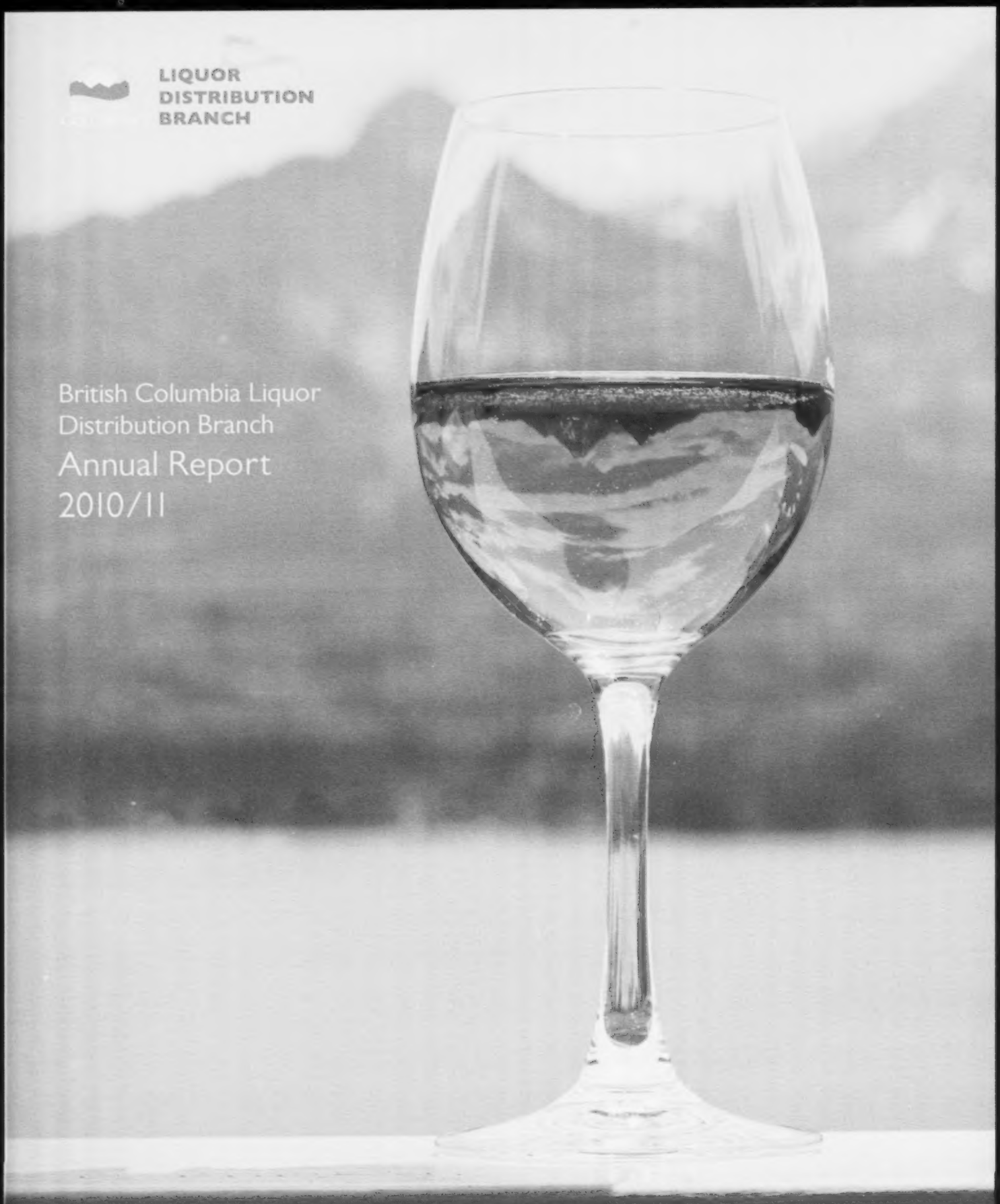
LIQUOR
DISTRIBUTION
BRANCH

British Columbia Liquor Distribution Branch Annual Report 2010/11



VISION

That our customers have the opportunity to discover, enjoy and share the evolving world of beverage alcohol.

MISSION

To be a customer-focused, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate responsibility.

VALUES

Exemplary Service

We take pride in the quality of our work. We strive for excellence in serving customers and coworkers.

Corporate Social Responsibility

We encourage and support the responsible use of beverage alcohol and minimize the impact of our operations on the environment.

Integrity

We take responsibility and are fully accountable for our actions, decisions and behaviour. We are open, honest and fair.

Respect

We treat all individuals with fairness, dignity and respect.

Teamwork

We support one another to achieve corporate goals.

Innovation

We encourage our people to find innovative and creative ways to improve our business.

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GENERAL MANAGER'S MESSAGE TO THE MINISTER RESPONSIBLE

The Honourable Shirley Bond, Minister of Public Safety and Solicitor General

Fiscal 2010/11 followed shortly after one of the most significant global recessions in decades. While there were some positive economic signs, beverage alcohol sales in British Columbia continued to be weak.

In 2010/11, the Liquor Distribution Branch's (LDB) sales were $2.82 billion which was 1.2 per cent less than the previous year. Sales increases were in the spirits and wine categories but this was offset by significant decreases in the beer and refreshment beverage categories. Net income for the year was $890.4 million which was $13.1 million more than the previous year but significantly short of the budgeted $973.7 million. We are confident that consumer confidence will improve and that we will once again be achieving our sales and net income objectives.

Following the success of the 2010 Olympic and Paralympic Games, the LDB focused on financial performance by closely monitoring sales and expenses. In addition, the LDB substantially completed its Payment Card Industry compliance program to ensure that customer credit card information is protected.

In 2010/11, the number of retirements at the LDB continued to increase. In an effort to ensure a smooth transition and minimize operational impacts, we continued to focus on our succession planning. We were also pleased to have been honoured by Mediacorp for the second year in a row as one of British Columbia's Top 55 Employers for 2011.

In order to reduce our organization's environmental footprint, the LDB has developed a comprehensive Green Plan. In the past year, we have received rebates from both FortisBC (previously known as Terasen) and BC Hydro for energy reduction initiatives at our Vancouver warehouse and Head Office facilities.

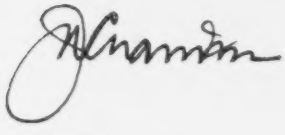
BC Liquor Store customers continued to show their generosity by supporting our annual Dry Grad fundraising campaign. This year, the campaign raised $512,604 for alcohol-free high school graduation events throughout the province. In 2010/11, BC Liquor Stores customers also contributed over $508,000 to the Canadian Red Cross international relief efforts in Pakistan and Japan.

The 2010/11 LDB Annual Report was prepared under my direction, in accordance with the *Budget Transparency and Accountability Act* and the *BC Reporting Principles*. I am accountable for the contents of this report including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of the LDB for the twelve months ended March 31, 2011, in relation to the Service Plan published in February 2010.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of May 20, 2011 have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate, direction, goals, strategies, measures or targets made since the 2010/11 – 2012/13 Service Plan was released and any significant limitations in the reliability of the data are identified in the report.



Jay Chambers
General Manager
May 20, 2011

GOVERNANCE

In British Columbia, the Liquor Distribution Branch (LDB) is one of two branches of government responsible for the beverage alcohol industry. *The Liquor Distribution Act* gives the LDB the sole right to purchase beverage alcohol both within BC and from outside the province, in accordance with the federal *Importation of Intoxicating Liquors Act*.

Reporting to the Minister of Public Safety and Solicitor General, the LDB:
- handles importation and distribution of beverage alcohol in BC;
- operates government liquor stores (GLSs) and distribution centres; and
- has a General Manager who is responsible for administering the *Liquor Distribution Act*, which includes the oversight of GLSs, subject to direction from the minister.

The Liquor Distribution Act clarifies:
- LDB administration;
- GLS operation; and
- the role and powers of the LDB General Manager.

The LDB follows the Crown Agencies Resource Office guidelines for service plans and annual reports, and is reported out in public accounts in a manner similar to a commercial Crown corporation, on a modified equity basis.

Another branch of the Ministry of Public Safety and Solicitor General — the Liquor Control and Licensing Branch (LCLB) — licenses private liquor stores, restaurants, pubs and manufacturers, and enforces regulations under the *Liquor Control and Licensing Act*. For more information, please visit **pssg.gov.bc.ca/lclb/**.

MEET THE LDB EXECUTIVE MANAGEMENT COMMITTEE

Jay Chambers
General Manager

Roger Bissoondatt
Chief Financial Officer

Kelly Wilson
Executive Director,
Wholesale and Retail Services

Gordon Zelenika
Executive Director,
Human Resources

Don Farley
Executive Director,
Information Services

Gordon Hall
Director,
Corporate Policy

Donna Morse
Director,
Corporate Security

Catherine Sloan
Legal Counsel

The LDB and LCLB have a shared responsibility to encourage the responsible consumption of beverage alcohol and work closely together to coordinate policies and programs to this end.

Visit **bcldb.com** and click on the About Us link for more about the LDB.

BUSINESS OF THE LIQUOR DISTRIBUTION BRANCH

The LDB operates a province-wide, retail/wholesale beverage alcohol business, within a mixed public-private model.

As of March 31, 2011, the LDB:
- has a workforce of approximately 3,500 full- and part-time employees;
- operates 197 GLSs throughout the province;
- operates two distribution centres, in Vancouver and Kamloops; and
- has a Head Office facility in Vancouver.

As part of BC's mixed model retail system, the LDB is committed to providing customers with an enhanced shopping environment, increased product selection and a high level of service.

The LDB purchases beverage alcohol from more than 400 suppliers and manufacturers within the province, across the country and around the world. Licensed manufacturers in BC include 222 wineries, 58 breweries, and 15 distilleries.

With more than 1,300 beverage alcohol retail outlets operating in BC, consumers have a variety of choices depending on their service needs, including:

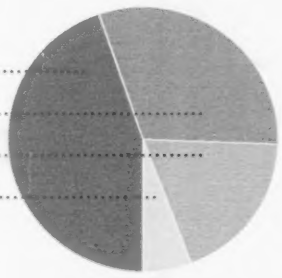
- 197 GLSs (government-owned and -operated stores selling beverage alcohol to retail and wholesale customers);
- 672 licensee retail stores (LRSs – private stores licensed to sell all beverage alcohol products);
- 223 rural agency stores (RASs – general merchandise stores in rural communities authorized to sell all beverage alcohol products);
- 233 on-site manufacturer stores (stores at wineries, breweries and distilleries that sell the products that they manufacture);
- 35 off-site manufacturer stores (stores operated by the BC wine industry that sell BC winery products);
- 12 private wine stores (stores that sell domestic and imported wines); and
- 11 duty-free stores.

In addition to retail stores, there were approximately 8,000 bars, restaurants and other licensed on-premise establishments.

The wholesale beverage alcohol distribution model in BC includes the two government distribution centres, GLSs and a number of manufacturers and private distributors that are authorized to distribute beverage alcohol as agents of the LDB.

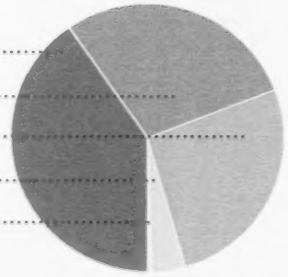
Percentage of Gross $ Sales by Sales Channel **2010/11**

Government Liquor Stores	41.3%
Licensee Retail Stores	33.7%
Licensees (pubs, bars, restaurants)	16.5%
Agency Stores	8.5%



Percentage of Gross $ Sales by Product Category **2010/11**

Beer	38.8%
Wine	30.6%
Spirits	26.1%
Refreshment Beverages	4.2%
Special Orders/Non-alcoholic	0.3%



OUR CUSTOMERS AND STAKEHOLDERS

The LDB is one of the largest retailers in BC, with 37.4 million retail customer visits to BC Liquor Stores during fiscal 2010/11. We also processed 427,000 wholesale customer transactions. The LDB sources a wide selection of domestic and international beverage alcohol products for our retail and wholesale customers.

To serve the interests of our customers and stakeholders, we:

- deliver quality products and services;
- provide products and services to a variety of beverage alcohol outlets throughout British Columbia;
- manage the importation, warehousing and distribution of beverage alcohol;
- promote the safe and responsible use of beverage alcohol; and
- implement policies to ensure LDB workplaces are safe and free of harassment or discrimination.

To fulfill our responsibilities to the government and people of British Columbia, we:

- generate revenue for the government of British Columbia;
- manage the LDB's business risks;
- ensure accountability of key business partners; and
- develop and implement programs and services aimed at deterring the sale of beverage alcohol to minors and those who appear intoxicated.

LDB CORE BUSINESS AREAS

Wholesale and Retail Services

Encompasses both the retail and the wholesale departments and includes Distribution, Store Operations, Purchasing, Marketing, Wholesale and Real Estate.

Corporate Security

Responsible for security policies and programs and the LDB's Emergency Management program.

Legal Services

Provides legal advice to the LDB and directs the Information and Privacy program.

Corporate Policy

Researches and advises on corporate policy issues and is responsible for communications.

Finance

Manages revenue, expenditures, budgeting, reporting, auditing and administers policies related to the importation and distribution of beverage alcohol.

Information Services

Implements and maintains the LDB's information systems.

Human Resources

Provides services related to recruitment and selection, employee training and development, labour relations, classification and compensation, leave and benefit administration and organizational development.

THE FOUR PILLARS FRAMEWORK

The LDB organizes its strategic priorities and key objectives around the concept of four pillars. All four pillars support financial performance and at the foundation are the LDB's dedicated employees.

HIGH-LEVEL GOALS

The five high-level goals are:

1	2	3	4	5
Financial Performance Meet financial objectives approved by government.	**Workplace Quality and Employee Excellence** Create a work environment that encourages greater employee engagement.	**Customer Experience** Maintain a high level of wholesale and retail customer satisfaction.	**Business Effectiveness** Maintain operating efficiencies in a climate of constant change.	**Corporate Social Responsibility** Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.

LINKING GOALS TO PERFORMANCE MEASURES

	Goal 1 Financial Performance Meet financial objectives approved by government.	Goal 2 Workplace Quality and Employee Excellence Create a work environment that encourages greater employee engagement.	Goal 3 Customer Experience Maintain a high level of wholesale and retail customer satisfaction.	Goal 4 Business Effectiveness Maintain operating efficiencies in a climate of constant change.	Goal 5 Corporate Social Responsibility Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.
STRATEGIES	• Grow sales and effectively manage operating expenses	• Enhance staff skills and engagement through management development, employee training and increased communication • Implement succession management plans for the organization • Provide a safe, healthy and harassment-free workplace	• Continuously refresh the store network • Continuously provide enhanced customer services	• Maximize the potential efficiencies available through improved distribution operations • Increase the use of current and cost-effective technology	• Prevent sales to minors or intoxicated persons in BC Liquor Stores through increased staff education and enforcement of ID-checking requirements • Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders
PERFORMANCE MEASURES	• Net income	• Employee engagement	• Retail customer satisfaction • Wholesale customer satisfaction	• BC Liquor Store sales per square foot • Distribution Centre labour cost per case shipped • Distribution Centre order fill rate	• Store compliance with ID-checking requirement • Customer awareness of LDB corporate social responsibility programs • Greenhouse Gas Emissions

GOAL 1: FINANCIAL PERFORMANCE

Meet financial objectives approved by government.

2010/11 HIGHLIGHTS

The LDB's net income for fiscal 2010/11 was $890.4 million, $83.3 million or 8.6 per cent below target. Net income was affected by an unanticipated sales decline due to unfavourable economic conditions. In total, provincial liquor sales were $2.82 billion in 2010/11, 5.0 per cent lower than budgeted sales.

The following charts show historical sales by the different product categories in dollars and litres.

SALES BY MAJOR CATEGORY ($000s)

	2010/11	2009/10	2008/09	2007/08	2006/07	Change vs Previous Year $	Change vs Previous Year %
Domestic Spirits	405,874	411,227	426,101	410,071	389,181	(5,353)	(1.3)
Import Spirits	329,999	318,559	314,827	294,881	267,723	11,440	3.6
Total Spirits	**735,873**	**729,786**	**740,928**	**704,952**	**656,904**	**6,087**	**0.8**
Domestic Wine	390,068	373,279	354,793	330,221	304,000	16,789	4.5
Import Wine	472,725	455,269	460,576	444,745	386,835	17,456	3.8
Total Wine	**862,793**	**828,548**	**815,369**	**774,966**	**690,835**	**34,245**	**4.1**
Domestic Refreshment	97,926	104,350	91,467	89,656	90,878	(6,424)	(6.2)
Import Refreshment	21,193	20,827	23,467	18,454	12,681	366	1.8
Total Refreshment	**119,119**	**125,177**	**114,934**	**108,110**	**103,559**	**(6,058)**	**(4.8)**
Domestic Beer	858,483	918,399	897,135	885,342	868,997	(59,916)	(6.5)
Import Beer	236,176	243,785	213,917	195,536	177,598	(7,609)	(3.1)
Total Beer	**1,094,659**	**1,162,184**	**1,111,052**	**1,080,878**	**1,046,595**	**(67,525)**	**(5.8)**
Miscellaneous/Special Orders	8,011	8,377	12,247	10,560	11,232	(366)	(4.4)
Total Sales	**2,820,455**	**2,854,072**	**2,794,530**	**2,679,466**	**2,509,125**	**(33,617)**	**(1.2)**

SALES BY MAJOR CATEGORY IN LITRES (000s)							
	2010/11	2009/10	2008/09	2007/08	2006/07	Change vs Previous Year Litres	%
Domestic Spirits	13,980	14,846	15,867	15,829	15,488	(866)	(5.8)
Import Spirits	9,869	9,858	9,877	9,502	8,909	11	0.1
Total Spirits	**23,849**	**24,704**	**25,744**	**25,331**	**24,397**	**(855)**	**(3.5)**
Domestic Wine	31,298	30,299	29,044	27,766	26,781	999	3.3
Import Wine	28,702	28,490	28,298	27,710	25,087	212	0.7
Total Wine	**60,000**	**58,789**	**57,342**	**55,476**	**51,868**	**1,211**	**2.1**
Domestic Refreshment	21,927	22,938	19,165	18,799	19,267	(1,011)	(4.4)
Import Refreshment	3,535	3,454	3,970	3,061	2,048	81	2.3
Total Refreshment	**25,462**	**26,392**	**23,135**	**21,860**	**21,315**	**(930)**	**(3.5)**
Domestic Beer	221,023	241,385	236,782	240,933	239,868	(20,362)	(8.4)
Import Beer	51,516	52,363	46,357	43,671	39,356	(847)	(1.6)
Total Beer	**272,539**	**293,748**	**283,139**	**284,604**	**279,224**	**(21,209)**	**(7.2)**
Miscellaneous/Special Orders	134	163	164	187	194	(29)	(17.8)
Total Sales	**381,984**	**403,796**	**389,524**	**387,458**	**376,998**	**(21,812)**	**(5.4)**

GOAL 1: TARGETS AND RESULTS 2010/2011

GOAL: Meet financial performance objectives approved by government

STRATEGY: • Grow sales and effectively manage operating expenses

Measure	Actual			Target		
	08/09	09/10	10/11	10/11	11/12	12/13
Net income ($ millions)	891.1	877.3	890.4	973.7	1,013.5	1,039.2

RESULTS AND MEASUREMENT DESCRIPTION

Net income was $890.4 million, $83.3 million below target. This decrease was the result of poor sales due to continued unfavourable economic conditions. The LDB has updated its sales forecasts and assumptions and has revised its net income targets in the 2011/12–2013/14 Service Plan.

LDB's net income is the contribution made to the provincial government by the LDB from the total sales of liquor in the province and is audited by the BC Auditor General. LDB net income is an important source of funding for government programs and services. The net income target is based on LDB forecasts and assumptions and is approved by the Ministry of Finance.

GOAL 2: WORKPLACE QUALITY AND EMPLOYEE EXCELLENCE

Create a work environment that encourages greater employee engagement.

2010/11 HIGHLIGHTS

LDB recognized as one of BC's Top Employers

In 2010, the LDB was recognized by Mediacorp as one of British Columbia's Top 55 Employers. This is the second consecutive year the organization has received this distinction.

Succession Management and Leadership Development

The LDB's succession management plan focuses on the development of internal employees to ensure they are qualified for future vacancies. In fiscal 2010/11 the LDB introduced two additional training programs for its managers and supervisors. ***Essential Skills*** provides managers and supervisors with a management and supervisory skill development program that is specific to the LDB. The ***Signature Leadership*** program provides high performing, mid-level supervisors and managers with an opportunity to enhance their existing leadership capabilities and capacity.

Respect Matters

Respect Matters is an internal training program designed to reinforce the LDB's commitment to provide its employees and customers with a safe, respectful environment by raising awareness about workplace bullying, harassment and discrimination. In 2010/11, this training was provided to 473 directors, managers and supervisors.

GOAL 2: TARGETS AND RESULTS 2010/2011

GOAL: Create a work environment that encourages greater employee engagement

STRATEGIES:
- Enhance staff skills and engagement through management development, employee training and increased communication
- Implement succession management plans for the organization
- Provide a safe, healthy and harassment-free workplace

Measure	Actual			Target		
	08/09	09/10	10/11	10/11	11/12	12/13
Employee Engagement	68	70	69	72	74	75

RESULTS AND MEASUREMENT DESCRIPTION

The LDB's Employee Engagement score for fiscal 2010/11 was 69, slightly below the target of 72. The 2010/11 engagement score for the BC Public Service was 64. The LDB is developing initiatives to address specific areas for improvement from the 2010/11 survey.

Employee Engagement is the degree to which LDB employees feel engaged and satisfied with the work environment and involved with the corporate vision and mission. The Employee Engagement score is determined by an annual Workplace Environment Survey (WES) is conducted by BC Stats, which administers the same WES to the BC Public Service. The annual targets are based on a philosophy of continuous improvement.

GOAL 3: CUSTOMER EXPERIENCE

Maintain a high level of wholesale and retail customer satisfaction.

2010/11 HIGHLIGHTS

Store Upgrades

In order to provide a consistently high level of customer experience in the 197 store chain, the LDB upgrades a selection of stores each year. During fiscal 2010/11, the LDB completed 12 store remodels and made minor renovations to a further 36 stores.

TASTE Magazine

TASTE is a magazine produced by the LDB that includes articles on beverage alcohol products, recipes and entertaining ideas written by well-known wine and food experts. *TASTE* is distributed through BC Liquor Stores and has an annual circulation of approximately 520,000. Due to its popularity, the page count for *TASTE* increased by 30 per cent this year. *TASTE* is also available online at **bcliquorstores.com**.

Wine Education

The LDB launched a number of successful product education programs, including a sold-out Wine 101 Education course at the 39th & Cambie flagship store. The 39th & Cambie store also holds regular wine and food pairing events in partnership with suppliers and the hospitality industry.

Product Releases

The LDB had a number of successful special releases for customers looking for unique, quality products. These included the 2007 Bordeaux wines, Best of BC Wines, and special rum and whiskey releases.

Website

BC Liquor Stores' website **bcliquorstores.com** continued to evolve in fiscal 2010/11 with upgrades to search functions and improved access to content from the LDB's *TASTE* magazine. The website's visitor count increased over 50 per cent from the previous year.

Webinar Training for Wholesale Customers

In 2010/11, the LDB developed and implemented on online training course for wholesale customers that are interested in using the LDB's online webstore product ordering system. These webinars allow wholesale customers throughout the province to receive the training from the convenience of their offices or homes.

GOAL 3: TARGETS AND RESULTS 2010/2011

GOAL: Maintain a high level of wholesale and retail customer satisfaction

STRATEGIES: • Continuously refresh the store network
• Continuously provide enhanced customer services

Measure	Actual			Target		
	08/09	09/10	10/11	10/11	11/12	12/13
Retail Customer Satisfaction	99%	N/A	98%	90%	N/A	90%
Wholesale Customer Satisfaction	80%	N/A	82%	90%	N/A	90%

RESULTS AND MEASUREMENT DESCRIPTION

Retail Customer Satisfaction

The LDB achieved a rating of 98 per cent, exceeding the target of 90 per cent.

The retail customer satisfaction rating is determined by a survey of BC Liquor Store retail customers conducted by a professional survey company. This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement. The high targets established for both retail and wholesale customer satisfaction reflect the LDB's commitment to customer service.

Wholesale Customer Satisfaction

The LDB achieved a rating of 82 per cent, below the target of 90 per cent but an improvement over the previous survey results of 80 per cent. The LDB is developing initiatives to address specific areas for improvement from the 2010/11 survey.

The wholesale customer satisfaction rating is determined through a survey of a sample of wholesale customers — bars, restaurants and private retailers — conducted by a professional survey company. This survey is conducted once every two years so that customers have an adequate amount of time to experience LDB service initiatives which often take more than one year to fully implement.

GOAL 4: BUSINESS EFFECTIVENESS

Maintain operating efficiencies in a climate of constant change.

2010/11 HIGHLIGHTS

Payment Card Industry (PCI) Data Security Compliance

In fiscal 2010/11, the LDB substantially completed its Payment Card Industry (PCI) compliance program to ensure that customer credit card information is protected. The ongoing sustainment activities associated with PCI compliance will begin in fiscal 2011/12.

Financial Business Improvement Project

Substantial progress was made on the Financial Business Improvement Project, which will be completed in fiscal 2011/12. This initiative will streamline business and financial processes and improve the accuracy of inventory and financial transaction data.

GOAL 4: TARGETS AND RESULTS 2010/2011

GOAL: Maintain operating efficiencies in a climate of constant change.

STRATEGIES:
- Maximize the potential efficiencies available through improved distribution operations
- Increase the use of available, current and cost-effective technology

Measure	Actual			Target		
	08/09	09/10	10/11	10/11	11/12	12/13
BC Liquor Store Sales per Square Foot	$1,269	$1,270	$1,259	$1,354	$1,391	$1,419
Distribution Centre Labour Cost per Case Shipped	$1.70	$1.73	$1.74	$1.69	$1.69	$1.69
Distribution Centre Order Fill Rate	N/A	92%	93%	90%	90%	90%

RESULTS AND MEASUREMENT DESCRIPTION

BC Liquor Store Sales per Square Foot

Fiscal 2010/11 sales per square foot were $1,259, below the target of $1,354. This is a result of lower sales than expected due to economic conditions. The LDB has updated its sales forecasts and has revised its sales per square foot targets in the 2011/12 Service Plan.

This indicator is based on the annual dollar sales of the store system divided by total store system square footage. This measures how well the LDB converts its floor space into sales. The annual targets are based on a philosophy of continuous improvement.

Distribution Centre Labour Cost per Case Shipped

Fiscal 2010/11 labour cost per case was $1.74, slightly above the target of $1.69 per case. This increase relates to the transfer of a number of lower volume wholesale customer accounts from BC Liquor Stores to the Wholesale Centres. As a result, the Wholesale Centres processed more small orders than anticipated. The LDB has updated the targets in the 2011/12 - 2013/14 Service Plan to reflect this change in business.

This productivity measure is calculated by dividing total Distribution Centre labour expenses by total case shipments.

Distribution Centre Order Fill Rate

The result for fiscal 2010/11 was 93 per cent, exceeding the target of 90 per cent.

Based on a common distribution industry standard, this measure is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. It includes orders made by the LDB stores and wholesale customers served out of the Distribution Centres in Vancouver and Kamloops.

GOAL 5: CORPORATE SOCIAL RESPONSIBILITY

Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.

2010/11 HIGHLIGHTS

Monthly Responsible Use Awareness Programs

Throughout the year, the LDB encourages the responsible use of beverage alcohol through posters displayed in all BC Liquor Stores. In 2010/11, these awareness programs included: Don't Buy for Minors; This is No Way to Have Fun (binge drinking); Don't Drink and Drive; Boating and Alcohol Don't Mix; Summer Safety (drinking and driving); Healthy Babies (alcohol and pregnancy); Halloween – Get Home Safe, Heading to a Party? – Make a Plan; CounterAttack; and Keep Alcohol Off the Slopes.

Support Dry Grad

Support Dry Grad collects customer donations that help fund local high school alcohol-free graduation events in 55 school districts throughout British Columbia. In 2010/11, the LDB conducted its eleventh ***Support Dry Grad*** campaign and raised $512,604. Since inception, ***Support Dry Grad*** has raised over $3.9 million for alcohol-free graduations events.

Share-a-Bear

For over two decades, the LDB has sold plush teddy bears every November and December in its BC Liquor Stores. Every bear sold has a "twin" and this twin is donated by BC Liquor Stores to a children's charity. Employees at BC Liquor Stores select the local charities to support, which include Christmas stocking funds, hospitals, police and ambulance services, and other community groups. In fiscal 2010/11, over 28,000 bears were donated to charities.

Canadian Red Cross Disaster Relief

The LDB is an official disaster partner of the Canadian Red Cross and collects Red Cross donations from BC Liquor Store customers throughout the province after major disasters. In 2010/11, customers generously donated over $508,000 in Red Cross disaster relief funds for the Pakistan floods and the Japan earthquake/tsunami.

Environment

The LDB received rebates from both FortisBC (previously known as Terasen Gas) and BC Hydro for energy reduction initiatives at both its Distribution Centre and Head Office in Vancouver. FortisBC recognized the LDB with a cash rebate for the installation of a new energy efficient boiler at its Vancouver warehouse/office complex. BC Hydro also recognized the LDB with a cash rebate for an initiative to reduce head office electricity usage through computer server "virtualization."

GOAL 5: TARGETS AND RESULTS 2010/2011

GOAL: Encourage and support the responsible use of beverage alcohol and minimize the impact of operations on the environment.

STRATEGIES:
- Prevent sales to minors or intoxicated persons in BC Liquor Stores through increased staff education and enforcement of ID-checking requirements
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders

Measure	Actual			Target		
	08/09	09/10	10/11	10/11	11/12	12/13
Store Compliance with ID-Checking Requirement	56%	N/A	N/A	100%	100%	100%
Customer Awareness of LDB Corporate Responsibility Programs	88%	N/A	90%	90%	N/A	90%
Greenhouse Gas Emissions	N/A	N/A	Carbon Neutral	Carbon Neutral	TBD	TBD

RESULTS AND MEASUREMENT DESCRIPTION

Store Compliance with ID-Checking Requirement

The Liquor Control and Licensing Branch (LCLB) administers an ID checking program in LDB and private liquor outlets through the province. In fiscal 2010/11, LCLB resources were dedicated to developing a new program, to be implemented in 2011/12, that will use actual minors to test compliance. As a result, LCLB did not conduct a program for 2010/11 and a measure is not available.

Prevention of sales to minors is a key component of the LDB's social responsibility mandate, and the LCLB's independent compliance checking program is the best method to measure performance. The high target reflects the LDB's commitment to prevent sales to minors from its store system.

Customer Awareness of LDB Corporate Social Responsibility Programs

The LDB met its customer awareness goal by meeting the target of 90 per cent.

The LDB displays messaging in its stores that encourages the responsible use of beverage alcohol. The themes (e.g. prevention of drinking/driving or sales to minors) change monthly. The LDB measures customer recall of this messaging through the same survey the LDB uses to rate its retail customer service performance (See Goal 3). This target reflects the LDB's desire to have a high customer recall of its responsible-use messaging.

Greenhouse Gas Emissions

The LDB met its goal of carbon neutrality in 2010/11 through energy reduction initiatives and the purchase of carbon offsets from the Pacific Carbon Trust. This goal has been replaced with a plastic bag reduction goal in the 2011/12 – 2013/14 Service Plan as the purchase of carbon offsets is now a mandatory requirement for the LDB.

BENCHMARKING

In 2010/11, the LDB benchmarked itself against a number of other organizations including: provincial liquor boards; non-Canadian government liquor authorities; private distribution organizations and private retailers. The results from the four measures that are most relevant to the LDB are shown below.

There are important differences in the operations and mandate of the LDB compared to most of these organizations and this affects their comparability. The LDB's relative performance to these organizations is shown below. Certain performance measures were only relevant to a selection of the organizations.

Performance Measures	Ranking WORST ← → BEST	Comparable Entities
Operating Costs as a Percentage of Total Sales	LDB	9
Net Income as a Percentage of Total Sales	LDB	9
GLS Sales per GLS FTE	LDB	5
Distribution Centres Cost per Case per Year	LDB	5

Operating Costs as a Percentage of Total Sales

This measure indicates the overall operational efficiency of an organization and represents the percentage of each sales dollar that is used for operating costs.

Net Income as a Percentage of Total Sales

This is a measure of the overall health and profitability of an organization, and represents the percentage of each sales dollar that is generated for government in the case of public liquor authorities such as the LDB, or to shareholders in the case of private companies.

GLS Sales per GLS FTE

This is a measure of productivity of government liquor store employees. FTE stands for "Full Time Equivalent" and is equal to one person-year of employment.

Distribution Centres Cost per Case per Year

This measures how cost effective distribution centres are on a volume basis.

SHAREHOLDER'S LETTER OF EXPECTATIONS

A key component of the LDB's governance framework is the Shareholder's Letter of Expectations (SLE) — an agreement between the Minister (on behalf of the Government of British Columbia) and the General Manager of the LDB.

The SLE also provides direction from the Shareholder to the LDB to take specific action. These specific actions from the 2010/11 SLE and the LDB's actions to address them are outlined in the following table. The complete SLE is available on the LDB's website at **bcldb.com/annual-report**.

GOVERNMENT DIRECTION	LDB ALIGNMENT
Inform the Shareholder on a regular basis of any major changes occurring or likely to occur in the beverage alcohol market, or within the LDB itself, that may impact on the LDB's achievement of its Service Plan targets either negatively or positively.	The LDB reports financial results to the Shareholder on a monthly basis and regularly notifies the Shareholder of major changes likely to affect the LDB's achievement of its Service Plan targets.
Ensure any debit/credit card payment services provided to the public are in compliance with the international Payment Card Industry (PCI) Data Security Standards by the October 1, 2010 deadline.	The LDB substantially implemented the PCI compliance standards in 2010/11.
Comply with the Shareholder's and LCLB's direction to rationalize and improve the regulatory framework for the importation, distribution and retailing of beverage alcohol.	The LDB complied with the direction provided by the Shareholder and LCLB.
Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010.	The LDB measured its greenhouse gas emissions, implemented a number of energy reduction initiatives and purchased carbon offsets from the Pacific Carbon Trust.

MANAGEMENT DISCUSSION AND ANALYSIS

ACTUAL 2011 FINANCIAL RESULTS COMPARED TO 2010 ACTUAL RESULTS

Fiscal 2010/11 was a challenging year for the LDB. Gross sales were $2.82 billion, a decrease of $33.6 million from the previous year.

In July 2010, product mark-ups were increased when the Harmonized Sales Tax (HST) was introduced in order to partially recover lost government revenue associated with the three per cent reduction in provincial liquor sales tax.

Commissions and discounts were $201.5 million, which was $3.3 million higher than fiscal 2009/10. This is due to increased sales to wholesale customers with higher purchase discounts and more sales in the direct delivery channel.

Operating expenses were 10.0 per cent of sales for the fiscal year, 0.3 per cent higher than fiscal 2009/10. Expenses were $5.6 million higher than fiscal 2009/10 with the largest changes occurring in the following areas:

- Employment expenses decreased $3.5 million due to lower sales.
- Rents increased $2.2 million due to existing lease contracts and higher rents in urban areas as leases were renewed.
- Amortization increased $1.2 million due to projects that were completed during the year and were put in use.
- Project costs increased $3.5 million due to Payment Card Industry (PCI) compliance, HST, International Financial Reporting Standards conversion, and the Financial Business Improvement Project.
- Data processing increased $1.1 million due to PCI compliance and renewal of data processing contracts.

Compared to fiscal 2009/10, net income was $890.4 million, an increase of $13.1 million. LDB net income as a percentage of sales increased to 31.6 per cent from 30.7 per cent in the previous year. This increase is due to the mark-up adjustments when the HST was implementated as well as the shift in product mix from beer and refreshment beverages to wines and spirits.

TABLE 1: SUMMARY OF FINANCIAL RESULTS OVER 5 YEARS

For the five years ended March 31, 2011 (all dollar figures in $000)

	Actual 2010/11	Budget 2010/11	Actual 2009/10	Actual 2008/09	Actual 2007/08	Actual 2006/07
Sales	2,820,455	2,969,394	2,854,072	2,794,530	2,679,466	2,509,125
Cost of Sales	1,458,335	1,507,849	1,515,289	1,451,244	1,396,466	1,276,167
Gross Margin	1,160,577	1,263,502	1,140,494	1,152,762	1,103,040	1,090,834
Operating Expenses	281,471	296,949	275,875	269,954	256,058	256,302
Operating Income	879,106	966,553	864,619	882,808	846,982	834,532
Net Income	890,375	973,675	877,276	891,117	857,216	840,286
Gross Margin (%)	41.1%	42.6%	40.0%	41.3%	41.2%	43.5%
Operating Expenses to Sales (%)	10.0%	10.0%	9.7%	9.7%	9.6%	10.2%
Net Income to sales (%)	31.6%	32.8%	30.7%	31.9%	32.0%	33.5%
Inventory Turnover	17	17	17	17	18	19

Data source: LDB Oracle Financial System

Fiscal 2010/11 capital expenditures of $18.5 million were comparable to the $18.9 million spent in the previous year. Capital expenditures were related to the completion of the second data centre, the financial business improvement project, regulatory changes, as well as ongoing operational capital needs and tenant improvements for government liquor stores.

During fiscal 2010/11, the customer count at government liquor stores (GLSs) decreased by 1.4 per cent, or 0.6 million customers to 37.8 million. The customer count in fiscal 2009/10 was boosted by Vancouver hosting the 2010 Winter Olympic and Paralympic Games in February and March 2010 . The average retail customer transaction value at GLSs, however, increased to $32.14 from $31.43. This can be attributed to HST-related mark-up adjustments and a change in purchasing patterns that saw customers shift from beer and refreshment beverages towards spirits and wines.

Overall inventory turns for the LDB have remained constant at 17 times. This indicates that the average number of days that the LDB holds inventory has remained at 21 days. Inventory turns at the GLSs decreased to 14 turns from 16 turns per year. The reduction of inventory turns reflects the reduced sales through the retail stores.

TABLE 2: KEY INDICES

(all $ figures in $000s)

	Actual 2010/11	Budget 2010/11	Change vs. 2010/11 Budget	Actual 2009/10	Change vs. 2009/10 Actual
Gross Sales	2,820,455	2,969,394	(148,939)	2,854,072	(33,617)
Net Income	890,375	973,675	(83,300)	877,276	13,099
Capital Expenditures	18,470	23,928	(5,458)	18,935	(465)
Gross Margin %	41.1%	42.6%	-1.5%	40.0%	1.1%
Operating Income to Sales	31.2%	32.6%	-1.4%	30.3%	0.9%
Operating Expenses to Sales	10.0%	10.0%	-	9.7%	0.3%
Net Income to Sales	31.6%	32.8%	-1.2%	30.7%	0.9%
Inventory Turnover	17	17	-	17	-
Customer Count	37,847	N/A	N/A	38,403	(556)
Average Transaction $ Value	$ 32.14	N/A	N/A	$ 31.43	$ 0.71

Data source: LDB Oracle Financial System

Retail and Wholesale Channels

The segmented information that follows allocates the financial results into the retail and wholesale channels based on an activity-based costing analysis. The retail operations covers all counter sales in GLSs and wholesale represent all other sales. An Activity-based Costing analysis between retail and wholesale, which allocates expenses between the two channels was performed based on activities in 2008/09. The results of this analysis were used in this year's segmentation.

Retail Channel

The net income as a percentage of sales increased from 35.1 to 35.5 per cent. The segment experienced a 0.4 per cent increase in sales. Cost of sales as a percentage of sales decreased by 0.5 per cent due the change in sales mix away from beer and refreshment beverages to spirits and wines and the mark-up increase that took effect on July 1, 2010. Operating expenses as a percentage of sales increased slightly by 0.1 per cent.

TABLE 3: RETAIL RESULTS

Retail *in millions $*	2010/11	%	2009/10	%	% Change
Sales	1164.5	100.0	1,160.3	100.0	0.4
Cost of Sales	559.1	48.0	563.2	48.5	(0.7)
Operating Expenses	197.8	17.0	196.4	16.9	0.7
Other Income	5.7	0.5	6.4	0.6	(10.9)
Net Income	**413.3**	**35.5**	**407.1**	**35.1**	**1.5**

Net income as a percentage of sales increased to 28.8 per cent from 27.8 per cent. Sales declined by 2.2 per cent and discounts increased by 1.6 per cent. The wholesale channel has a higher proportion of beer sales than the retail channel and was more impacted by the reduction in beer sales volume. Cost of sales as a percentage of sales decreased by 1.9 per cent due the change in sales mix away from beer and refreshment beverages to spirits and wines. The higher proportion of beer and BC wines, which have lower gross margins, in the wholesale channel resulted in an overall lower return.

TABLE 4: WHOLESALE RESULTS

Wholesale *in millions $*	2010/11	%	2009/10	%	% Change
Sales	1,656.0	100.0	1,693.8	100.0	(2.2)
Commissions & Discounts	201.5	12.2	198.3	11.7	1.6
Cost of Sales	899.2	54.3	952.1	56.2	(5.6)
Operating Expenses	83.7	5.1	79.5	4.7	5.3
Other Income	5.5	0.3	6.3	0.4	(12.1)
Net Income	**477.1**	**28.8**	**470.0**	**27.8**	**1.5**

Product Categories

Overall, the product mix shifted from beer and refreshment beverages to spirits and wine sales. Import products generally performed better than domestic products.

The largest percentage dollar increase was in the wine category at 4.1 per cent or $34.2 million. Spirits was next with an increase of $6.1 million or 0.8 per cent. Specialty and non alcoholic sales decreased by $0.4 million or 4.4 per cent from the previous year. Sales in the beer category had the largest decrease at $67.5 million or 5.8 per cent.

In terms of volume, only the wine category had an overall increase compared to the previous year. All other categories had overall volume decreases. The wine category had a 2.1 per cent increase over the previous year. Spirits and refreshment beverages each decreased by 3.5 per cent followed by packaged beer by 7.1 per cent, draught beer by 8.1 per cent, and specialty and non-alcoholic by 17.8 per cent.

TABLE 5: PRODUCT CATEGORY CHANGES

	% Change in Sales $ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	(1.3)	3.6	(5.8)	0.1
Wine	4.5	3.8	3.3	0.7
Beer	(6.5)	(3.1)	(8.4)	(1.6)
Refreshment	(6.2)	1.8	(4.4)	2.3

Market Share

Private sector stores, licensee retail stores (LRSs) and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased to 42.2 per cent from 41.7 per cent.

TABLE 6: ANALYSIS OF PROVINCIAL SALES BY SOURCE

For the five years ended March 31, 2011 (as a percentage of total dollar sales)

	2010/11	2009/10	2008/09	2007/08	2006/07
Government Liquor Stores (%)	41.3	40.7	40.7	40.5	42.7
Licensee Retail Stores (%)	33.7	33.5	33.0	32.3	30.1
Agency Stores (%)	8.5	8.2	8.3	8.1	8.3
Total Counter Sales (%)	83.5	82.4	82.0	80.9	81.1
Licensed Establishments (%)	16.5	17.6	18.0	19.1	18.9
Total Sales (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Data source: LDB Oracle Financial System

TABLE 7: ANALYSIS OF COUNTER SALES BY SOURCE

For the five years ended March 31, 2011 (as a percentage of total dollar sales)

	2010/11	2009/10	2008/09	2007/08	2006/07
Government Liquor Stores (%)	49.4	49.3	49.6	50.0	52.7
Licensee Retail Stores (%)	40.5	40.7	40.3	39.9	37.1
Agency Stores (%)	10.1	10.0	10.1	10.1	10.2
Total Counter Sales Market (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Data source: LDB Oracle Financial System

FUTURE OUTLOOK

The table below outlines the LDB's financial forecast for the next three years. The financial forecast incorporates several key assumptions:

Sales assumptions, based on market trends by product categories, include:

- Increases of 3.2 per cent, 2.4 per cent and 2.4 per cent over the next three years due to inflationary trends, a full year of HST mark-up increase, and no further shifting of product between categories.
- Growth in sales is expected to be realized in both the wholesale and retail segments and the market share between retail to wholesale is expected to be stable for 2011/12 and following two years.

Overall volumes for all product categories are expected to be less than one per cent from the levels in fiscal 2010/11.

Continued growth in direct delivered 100 per cent BC wines is expected to result in a lower return on total sales.

Cost of Sales as a percentage of sales is estimated to decline slightly in 2011/12 to 51.4 per cent due to the effect of a full year of the HST mark-up increase which took effect July 1, 2010.

Operating expense assumptions include:

- No labour cost increases for fiscal 2011/12 and subsequent years.
- Higher rents especially in the urban regions.
- Greater amortization due to implementation of technology-related projects and store improvements.
- Increased costs due to compliance with Payment Card Industry standards and increasing credit card charges (premium cards and merchant fees).

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement.

The financial forecasts reflect accounting treatment that is consistent with International Financial Reporting Standards.

TABLE 8: BUDGET AND FORECASTS

(in $millions)

	Budget 2011/12	Forecast 2012/13	Forecast 2013/14
Sales	2,910.7	2,981.5	3,054.2
Commissions and Discounts	202.8	207.8	212.8
Cost of Sales	1,495.4	1,534.9	1,575.4
Gross Margin	1,212.5	1,238.8	1,266.0
Operating Expenses	295.0	300.2	306.1
Operating Income	917.5	938.6	959.9
Interest and Other Income	7.3	7.5	7.5
Net Income	**924.8**	**946.1**	**967.4**
Capital	24.8	26.6	27.9
Debt	0.2	0.1	0.0
Retained Earnings	0.0	0.0	0.0

The following tables reflect the LDB's forecast for the retail and wholesale channels for the next three years.

TABLE 9: RETAIL AND WHOLESALE CHANNELS BUDGET AND FORECASTS

Retail
(in $millions)

	Budget 2011/12	Forecast 2012/13	Forecast 2013/14
Total Sales	1,195.4	1,224.5	1,254.3
Cost of Sales	574.6	588.4	602.6
Operating Expenses	202.4	205.9	210.0
Other Income	3.7	3.8	3.8
Net Income	**422.1**	**434.0**	**445.5**

Wholesale
(in $millions)

	Budget 2011/12	Forecast 2012/13	Forecast 2013/14
Total Sales	1,715.3	1,757.0	1,799.9
Commissions and Discounts	202.8	207.8	212.8
Cost of Sales	920.8	946.5	972.8
Operating Expenses	92.6	94.3	96.1
Other Income	3.6	3.7	3.7
Net Income	**502.7**	**512.1**	**521.9**

RISK MANAGEMENT

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

In view of the uncertainty of the economic climate, the LDB is closely monitoring its financial performance and budgets in order to mitigate financial risks.

The LDB regularly updates its Enterprise Wide Risk Assessment and has a number of projects in progress to mitigate identified business and technology risks. These include the Financial Business Improvement Project, the PCI compliance program and the conversion to International Financial Reporting Standards.

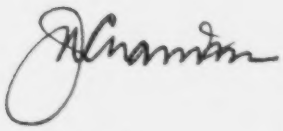
AREA	RISK FACTORS AND SENSITIVITIES		MITIGATING STRATEGIES
ECONOMY	Beverage alcohol is a discretionary consumer product and sales are negatively affected by poor economic conditions.	>	The LDB will carefully monitor its sales and expenses and will make adjustments to its operations and budgets as necessary.
INFORMATION TECHNOLOGY	The upgrading of information systems and business processes are key in the delivery of efficient and effective services to the LDB's customers. The replacement of older, difficult-to-maintain systems with new systems creates challenges in ensuring integration of applications and ensuring accurate information.	>	The LDB is replacing older systems on a scheduled basis and is working to improve the overall integration of systems.
PAYMENT CARD INDUSTRY COMPLIANCE	In order for the LDB to maintain credit card service, it must comply with the PCI standards.	>	The LDB is implementing a PCI compliance program in conjunction with the provincial government.
RECRUITING AND RETENTION OF SKILLED EMPLOYEES	The LDB is expecting a large number of skilled long-service employees to retire in the next five years.	>	The LDB has a focus on succession planning in order to recruit skilled employees from outside the organization and to support the career development of employees within the organization.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

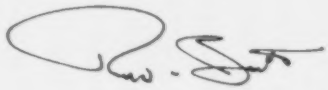
The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.



Jay Chambers
General Manager



Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

Vancouver, British Columbia
May 20, 2011

INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Safety and Solicitor General, Province of British Columbia

Report on the Financial Statements
I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch ("the entity") which comprise the balance sheet as at March 31, 2011, and the statements of operations, advance due from (to) Province of British Columbia and cash flows for the period then ended, schedule of operating expenses and a summary of significant accounting policies and other explanatory information.

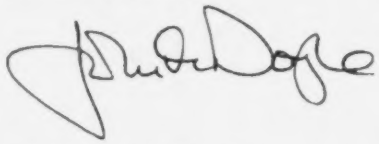
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2011, and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.



Victoria, British Columbia
May 20, 2011

John Doyle, MBA, CA
Auditor General

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

BALANCE SHEET

(in $000s)

As at March 31,	2011	2010 (note 17)
ASSETS		
CURRENT ASSETS		
Cash	-	6,724
Accounts receivable	5,013	5,307
Inventories (note 3)	83,021	89,974
Prepaid expenses (note 4)	4,979	4,294
Due from Province of British Columbia	9,229	-
	102,242	106,299
LONG TERM ASSETS		
Prepaid expenses – long term (note 4)	3,377	2,090
Intangible assets (note 5)	2,884	2,785
Property, plant and equipment (note 6)	57,626	59,397
	166,129	**170,571**
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	7,153	-
Accounts payable and accrued liabilities	141,177	137,447
Current portion of deferred tenant allowances (note 7)	85	85
Current portion of tenant improvement loans (note 8)	158	361
Current portion of obligation under capital lease (note 9)	47	74
Due to Province of British Columbia (note 10)	-	13,773
	148,620	151,740
LONG TERM LIABILITIES		
Deferred tenant allowances (note 7)	348	432
Tenant improvement loans (note 8)	61	219
Obligation under capital lease (note 9)	129	176
Other long term liabilities (note 14)	16,971	18,004
	166,129	**170,571**

Commitments and contingent items (notes 11 & 12)

Approved by:

Jay Chambers
General Manager

Roger M. Bissoondatt, CA, CMA
Chief Financial Officer

The accompanying notes and supplementary schedule are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

STATEMENT OF OPERATIONS

(in $000s)

Year Ended March 31,	2011	2010
Sales (note 13)	2,820,455	2,854,072
Less commissions & discounts	201,543	198,289
	2,618,912	2,655,783
Cost of merchandise sold	1,458,335	1,515,289
Gross margin	1,160,577	1,140,494
Operating expenses (schedule)	281,471	275,875
	879,106	864,619
Other income	11,269	12,657
Net income	**890,375**	**877,276**

STATEMENT OF ADVANCE DUE (TO) FROM PROVINCE OF BRITISH COLUMBIA

(in $000s)

Year Ended March 31,	2011	2010
Balance beginning of year	(13,773)	(375)
Net income	(890,375)	(877,276)
Payments to the Province of British Columbia	913,377	863,878
Balance end of year	**9,229**	**(13,773)**

The accompanying notes and supplementary schedule are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

STATEMENT OF CASH FLOWS

(in $000s)

Year Ended March 31,	2011	2010
CASH FLOWS (USED IN) OPERATING ACTIVITIES		
Cash receipts from customers	2,619,207	2,657,921
Cash payments to the Province of British Columbia	(913,377)	(863,878)
Cash paid to suppliers and employees	(1,718,189)	(1,780,945)
Cash receipts from other income	11,248	12,595
Interest paid on capital lease and loans	(47)	(93)
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	(1,158)	25,600
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(10,665)	(11,890)
Acquisition of capital project assets	(1,268)	(6,134)
Additions to intangible assets	(401)	(909)
Proceeds from disposal of property, plant & equipment	50	59
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(12,284)	(18,874)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Payment on capital lease	(74)	(68)
Tenant improvement loans	(361)	(436)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	(435)	(504)
NET(DECREASE) INCREASE IN CASH	(13,877)	6,222
CASH BEGINNING OF YEAR	6,724	502
(BANK INDEBTEDNESS) CASH END OF YEAR	**(7,153)**	**6,724**

The accompanying notes and supplementary schedule are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS

British Columbia Liquor Distribution Branch

SCHEDULE OF OPERATING EXPENSES

(in $000s)

Year Ended March 31,	2011	2010
Salaries, wages and benefits (note 14)	159,800	163,326
Rents	35,899	33,662
Bank charges	20,308	19,590
Amortization	13,977	12,692
Freight to stores	9,489	9,558
Professional services	7,689	4,140
Repairs and maintenance	6,697	6,780
Other operating expenses	5,228	5,666
Data processing	4,914	3,801
Merchandising	3,534	3,743
Stationery and supplies	3,268	2,275
Loss prevention	3,044	2,997
Light, water and fuel	2,894	2,644
Telephone	2,550	2,583
Warehouse equipment costs	1,406	1,583
Travel	727	742
Interest on long term liabilities	47	93
	281,471	**275,875**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2011
(Tabular amounts in $000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the ***British Columbia Liquor Distribution Act*** (Act). As stated in Section 2 of this Act, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the ***Importation of Intoxicating Liquors Act (Canada)***.

2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the Act, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

Financial Instruments

The Branch has designated its financial instruments as follows:

Cash is classified as held for trading and measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities are classified as other financial liabilities and are also measured at amortized cost.

The Branch is exposed to various risks related to its financial assets and liabilities. It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

Market Risk
Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Branch's income or the value of its financial instruments. The Branch's exposure to foreign currency risk is only related to the value of foreign exchange transactions in the normal course of business, and manages this risk by minimizing the amount of the transactions in foreign funds.

Liquidity Risk
Liquidity risk is the risk that the Branch will be unable to meet its financial obligation as they become due. The Branch manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

Credit Risk
Credit risk is the risk of financial loss to the Branch due to customer inability to pay for product or counterparty to a financial instrument fails to meet its contractual obligations. The Branch's exposure to credit risk is only related to the value of accounts receivable in its normal course of business, and manages this risk by minimizing the amount of transactions which require recovery. The Branch continually monitors and manages the collection of receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign Currency Translation

The Branch in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

Inventories

The Branch's inventories are valued at the lower of cost and net realizable value. Store inventories are determined on a first-in, first-out basis. Warehouse inventories are determined on a weighted average cost basis. Cost is comprised of supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

Intangible Assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalised as an intangible asset.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the Branch that will probably generate economic benefits exceeding costs beyond one year are capitalised. Direct costs include software development employment costs including those of contractors used.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets acquired by the Branch have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses. As these costs have a limited useful life, they are amortized at a rate of 25 per cent per annum.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets as expressed as follows:

Buildings

7.5 per cent per annum.

Leasehold Improvements

A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

Furniture, Fixtures, Vehicles and Equipment

25 per cent per annum.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Information Systems
25 per cent per annum.

Leasehold improvements and capital projects
All material costs of construction and development for leasehold improvements and capital projects are treated as assets under Construction in Progress accounts. At the point in time when the project is substantially completed the costs are capitalized into their applicable categories and amortized at the asset category rate.

Leases
Assets recorded as capital leases are capitalized and amortized at the applicable asset category rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Revenue Recognition
Revenue is recognized when the sale of product is made to customers. Customers include retail customers, licensed establishments, licensee retail stores, and agency stores.

Employee Future Benefits
Liabilities are recorded for employee retiring allowance benefits as employees render services to earn those benefits.

Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable.

Use of Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Future Accounting Standards

International Financial Reporting Standards
The ***Budget Transparency and Accountability Act*** specifies that Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board, which directs Government Business Enterprises to adhere to International Financial Reporting Standards (IFRS). Treasury Board has directed the Branch to adopt IFRS.

The Branch is adopting IFRS effective April 1, 2011. The Branch will implement the required accounting policy changes under IFRS and the Branch's financial statements for the year ended March 31, 2012 (with comparative financial results for 2011) will be prepared in accordance with IFRS.

3. INVENTORIES

At March 31, 2011, store inventories were $55.7 million (2010 - $59.1 million) and warehouse inventories were $27.3 million (2010 - $30.9 million).

4. PREPAID EXPENSES

Prepaid expenses include insurance, software maintenance, and wine purchases. The Branch, as part of its on-going business practices, purchases select products in advance to secure delivery of these products up to three years in advance. These products are normally purchased in foreign currency and are translated to Canadian dollars at the rate of exchange in effect at the transaction date. At March 31, 2011, the Branch has recorded $6.3 million (2010 - $5.6 million) of prepaid wine futures for delivery in fiscal years 2011/12 and 2012/13.

Wine Purchases	6,306
Other Prepaids	2,050
	8,356
Current portion	(4,979)
Long term	**3,377**

5. INTANGIBLE ASSETS

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Intangible Assets	4,191	2,241	1,950	1,687
Construction in process	934	-	934	1,098
	5,125	**2,241**	**2,884**	**2,785**

6. PROPERTY, PLANT AND EQUIPMENT

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,068	-	1,068	1,068
Buildings	20,340	18,191	2,149	2,290
Leasehold improvements	53,292	24,883	28,409	28,392
Furniture, fixtures, vehicles & equipment	29,923	21,013	8,910	9,278
Office furnishings under capital lease	3,900	3,823	77	145
Information systems	75,681	65,870	9,811	10,188
Construction in process	7,202	-	7,202	8,036
	191,406	**133,780**	**57,626**	**59,397**

7. DEFERRED TENANT ALLOWANCES

Certain leasing agreements include incentives or landlord funding to be used towards expenditures such as tenant improvements or relocation expenses. The value of these benefits are recorded and amortized over the term of the lease.

Year Ending March 31	2012	85
	2013	85
	2014	85
	2015	79
	2016	50
	Subsequent years	49
		433
	Current portion	(85)
	Long term	**348**

8. TENANT IMPROVEMENT LOANS

As at March 31, 2011, the Branch has tenant improvements loans of $0.2 million financed through landlords. The range of interest rates is 8 per cent to 11.75 per cent with loans expiring from May 2011 to June 2014. The principal payments due are as follows:

Year Ending March 31	2012	158
	2013	30
	2014	24
	2015	7
		219
	Current portion	(158)
	Long term	**61**

9. OBLIGATION UNDER CAPITAL LEASES

The following schedule includes the future minimum lease payments for vehicles.

Year ending March 31	2012	58
	2013	58
	2014	53
	2015	28
	2016	4
	Total	201
	Imputed interest rate	8%
	Interest	(25)
	Current Portion	(47)
	Long term	**129**

10. DUE TO PROVINCE OF BRITISH COLUMBIA

The Branch does not maintain a separate bank account and uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to the Province of British Columbia represents the accumulated net financial transactions with the Province.

11. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year Ending March 31	2012	26,521
	2013	24,637
	2014	22,240
	2015	18,849
	2016	15,419
	Subsequent years	26,930
		134,596

Government Liquor Store Fees

In fiscal 2008, the Branch entered into a five year agreement with the Liquor Control and Licensing Branch (LCLB) to provide the LCLB an annual fee per Government Liquor store, plus administration costs. Effective April 1, 2010, the LCLB fee structure was based upon annual sales in each government liquor store. For fiscal 2010/11, the Branch paid $423,100 in fees, plus administration costs.

12. CONTINGENT ITEMS

The Branch is the sole importer of beverage alcohol in the Province. The Branch, as the importer of record, has the future liability for related federal customs duties on import products and excise duty on import beer of approximately $0.8 million (2010 - $0.7 million) based upon the value of the agents' inventories at March 31, 2011.

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the Branch.

13. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

	2011	2010
Retail customers	1,164,502	1,160,255
Licensee retail stores	952,713	958,682
Agency stores	238,165	234,101
Licensed establishments	465,075	501,034
	$ 2,820,455	**$ 2,854,072**

14. EMPLOYEES' BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan (the Plan) in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The most recent actuarial valuation (March 31, 2008) determined that the Plan needed to implement a contribution rate increase to meet funding requirements of the *Pension Benefits Standards Act*. As a result, rates for employees and employers increased by 0.15 per cent as of April 1, 2009. The total amount paid into this pension plan by the Branch for the 2010/11 fiscal year was $10.7 million for employer contributions (2010 - $10.7 million).

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $10,132,305 (2010 – $9,900,358), which represents future employees' retirement benefits outside of the Plan and is included in other long term liabilities. The expense adjustment recorded in the year is $231,947 (2010 - $109,650).

15. CAPITAL MANAGEMENT

The Branch does not retain any equity – which is what the Branch considers to be its capital. Net income is returned to the Province of British Columbia. The Branch's objectives when managing capital are to optimize the use of capital to provide an appropriate return to the Province.

The Branch manages its capital based on the funds available to the Branch. The Branch has policies and processes in place that provides direction for the management of the funds. There has been no change to the Branch's capital management approach during the year. The Branch has no externally imposed capital requirements.

16. RELATED PARTY TRANSACTIONS

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

The Branch acted as an agent for the Ministry of Finance regarding the collection of social service taxes on liquor sales to June 30, 2010.

The financial statements include the following transactions with related parties of the Province of British Columbia and Crown corporations:

Year Ending March 31	2011	2010
Liabilities at March 31 with related parties include:		
Accounts payable	$803	$389

During 2010/11, the Branch recorded payments with related parties for general administrative expenses of $29.2 million (2010 - $38.0). Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

The balance sheet for the prior year has been reclassified to conform with the presentation in the current year.

CONTACT INFORMATION

For more information about the Liquor Distribution Branch, or to request more copies of this Annual Report, please contact the LDB Communications department:

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The British Columbia Liquor Distribution Branch 2010/11 Annual Report is available online at **bcldb.com/annual-report**

For further information on the LDB's **Store Sales by Region** and **Top 10 Sales Results** please visit **bcldb.com/annual-report**

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